RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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THE PICTURE: It was the lowest (38%) election turnout in US history. The result: the Democrats now control both the Senate and the House, and Republican Ronald Reagan controls the presidency. But why the low turnout? In my opinion, it's the public's way of saying, "Who cares? A pox on both your houses." Could it be that the American public knows something the politicians in Washington don't know?

Consider this: here we have a president who ran on a policy of cutting the federal deficits and ending the whimpy foreign policies of the previous (Carter) administration. So what happens? In economics: under Reagan (who refuses to use his veto powers) the country runs a series of horrendous $200 billion deficits. In foreign policy: we get a series of shocks -- all coming in the last two months. Here they are: (1) disclosure of a US "disinformation" policy on Libya; (2) a cargo plane crash in Nicaragua, in which we learn that the US is engaging in illegal arms smuggling to the Contras; (3) and the latest -- we learn that our president and vice-president are both party to a secret policy of shipping arms to Iran (a center of anti-Americanism) in exchange for American hostages. Even Carter never stooped to anything like this.

I don't know. The deficits, the disinformation, the secret arms shipments -- just stick 'em all under the label of official hypocrisy, and then try to explain it to us poor slobs, the voters. And don't worry, we'll just quietly continue to pay the taxes to support all this idiocy. And the politicians will continue lying, and the system will somehow continue to stay afloat. That's America, folks, and maybe I'm just getting too cynical. So let's turn to the stock market. You see, one reason I love the stock market is that it cuts through all the hypocrisy and nonsense and brings it all down to one honest level -- dollars and cents.

Obviously, all the above has been taken in and digested by the market. Nothing that happened during or after the elections has surprised Wall Street (the instances of the stock market being genuinely surprised are few and far between, and such surprises are usually accompanied by either an upward explosion or a downside panic). The fact is that a primary bull market is currently in force, and NEWS TENDS TO GO WITH THE TREND.

The single most important piece of information that the investor can possess is a knowledge of the DIRECTION of the great primary trend of the market. When the primary trend is bullish (as it is now), the stockholder is IN HARMONY with an investment tide whose force can best be compared with the relentless tidal force of the ocean. Bull markets invariably mean good things ahead for stocks and stock holders -- even though those "goodies" may not be visible at the moment.

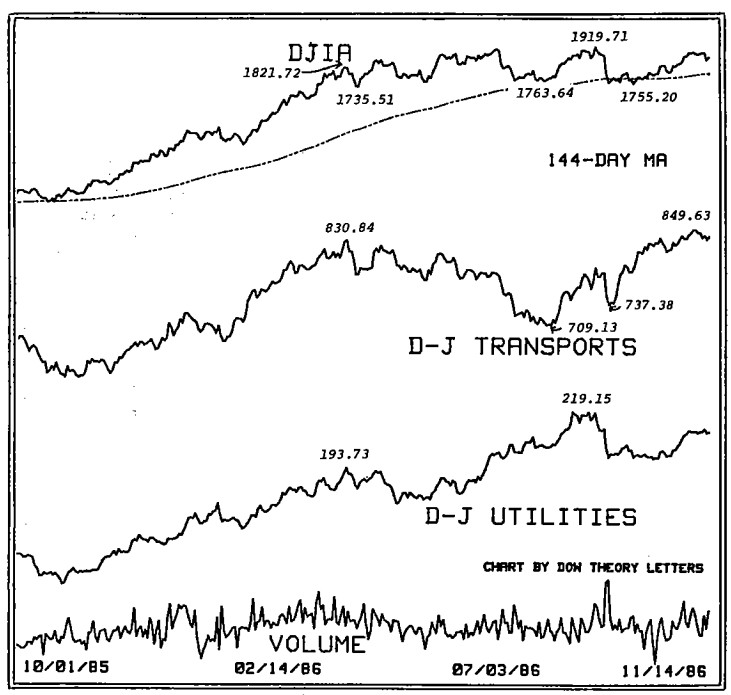
I've written until I'm blue in the face to the effect that the proper current position for investors is to be IN this market. The correct stance, the profitable stance in any bull market, is to buy common stocks (adding to positions on corrections), and to hold those stocks until the bull market is at or near the exhaustion stage. I've repeated that message month after month until I'm sure subscribers are tired of hearing it. But I'll keep repeating it anyway.

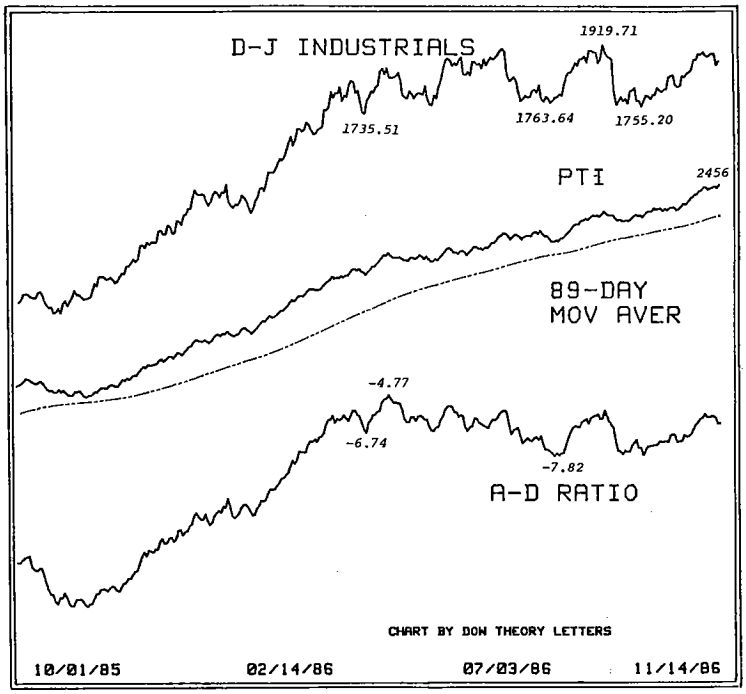
All right, having gotten all that off my chest, let's see what the market is doing. In Letter 950 I included a chart of the weekly negative volume index and the weekly A-D ratio. Both the A-D ratio and the negative volume index have, over the past few weeks, pushed to new bull market highs.

Based on studies covering the last four decades (studies by Market Logic), when the negative volume index is in a bull trend (as it now is), there is an 97% chance that a primary bull market is in force. By the same token, when the weekly A-D ratio is hitting new highs (as it has been), there is a high probability that the primary trend is bullish. Despite the evidence presented in this chart, there still remains an extraordinary number of investors and investment advisors who are bearish. Which is fine, because the greater the disbelief, the longer the life of the bull.

Next, let's turn to the daily action. On November 5 the D-J Transportation Average closed at a record high of 849.63 On the same day the D-J Industrial Average closed at 1899.04 -- 20 points below its own record high of 1919.71. Thus, again we have witnessed a new primary high in one Average, unconfirmed by the other. For the benefit of the bears, I should note that in the great majority of cases, a primary high in one Average is (in due time) confirmed by a high in the other Average.

On November 3 another event of major importance took place. On that day the D-J 65 Stock Average closed at a record high of 747.93. For some reason, the D-J 65 has never been a popular stock average, and it is ignored by most analysts. The Dow 65 is composed of the 30 D-J Industrial stocks, the 20 D-J Transports and the 15 D-J Utilities. The Dow 65 Average is a SENSITIVE average, and it tends to be a LEADER among the major composite averages. I therefore take the new record high in the Dow 65 as a bullish omen. The Dow 65 has led the other composite averages all the way up in this bull market, and I expect that it was doing so again at its November high.





On November 6 we witnessed another link in the bull market chain. On that day the D-J 20 Bond Average closed at 92.23, a new bull market high and its highest level since the bond bull market began in mid-1981.

So here we are with new highs in the D-J 65 Stock Average, the D-J Transportation Average, the negative volume index, the weekly A-D ratio, the D-J 20-Bond Average and my Primary Trend Index (PTI). If that isn't primary bull market action I don't know what is!

Here's something else to think about: the Dow for the period of January 1 to October 1, 1986 was UP 21.4%. During the same January to October period the D-J Transports were up 18%, the D-J Utilities were up 19.8%, the NYSE Composite was up 15.5% and the NASDAQ Composite was up 11%. Do all those statistics add up to a primary bear market? They don't in my book! Let me put it another way -- if those statistics are characteristics of a bear market, then what in the devil does a bull market look like?

INVESTMENT POSITION: I read literally dozens of investment publications each week, and it's invariably a learning experience. I'm particularly interested in the advisories that are wrong. The reason is that I LEARN from the wrong ones (I learn far less from the people who agree with me). In most instances, the wrong advisers have been trapped by their own preconceived notions. They want the market to fit their predictions.

Currently, the wrong "experts" delight in dwelling on the various bearish fundamental studies such as the shocking US federal debt, the weak dollar, the horrendous farm problems or the vanishing US steel business. That's all very well, and these disasters may play a major part in the next bear market. But no amount of frightening studies are going to turn the primary trend of this bull market down. The timing of the bearish advisers is simply out of kilter -- they are dealing with the right information at the WRONG TIME.

A second mistake made by many advisers is that they become totally immersed in the daily or short-term market phenomena. These people point to "too much optimism" or "heavy insider selling" or some minor non-confirmation, forgetting that a bull market can absorb an awful lot of temporary bearish items and still survive. So the overly eager bears strike out because they are MISSING THE BIG PICTURE. The big picture is that a bull market is in force, and the overriding power of the primary bull trend sweeps all those little bearish items away.

A third mistake made by today's bearish advisors is that they get faked out by obvious patterns. "The Dow is in a broadening top pattern," they warn or "IBM and GM are breaking down." Again, they forget that a bull market invariably does what it has to — to make fools of the bears. Over and over again in this bull market we've seen how this pattern looks scary or that non-confirmation is worrisome or the secondary stocks are lagging ominously. My answer to all this is always, "Give the bull market TIME. Everything will straighten out and everything will work out in due time. Don't let the little things fool you. The operative investment fact is that IT'S A BULL MARKET, and like water rising in a bathtub, everything (in due time) will rise to the surface."

What about stocks? Well, the Dow stocks that are acting particularly well here are American Can, DuPont, Kodak, Exxon, Int. Paper, Merck, MMM, Owens Illinois, Philip Morris, Westinghouse, Woolworth. For the last couple of years I've been saying that the place to be is in the strongest Dow stocks. Almost all of the above stocks have been recommended repeatedly. And I'm still recommending them. And oh yes, the bull remains in the box, and it is still a bull market.

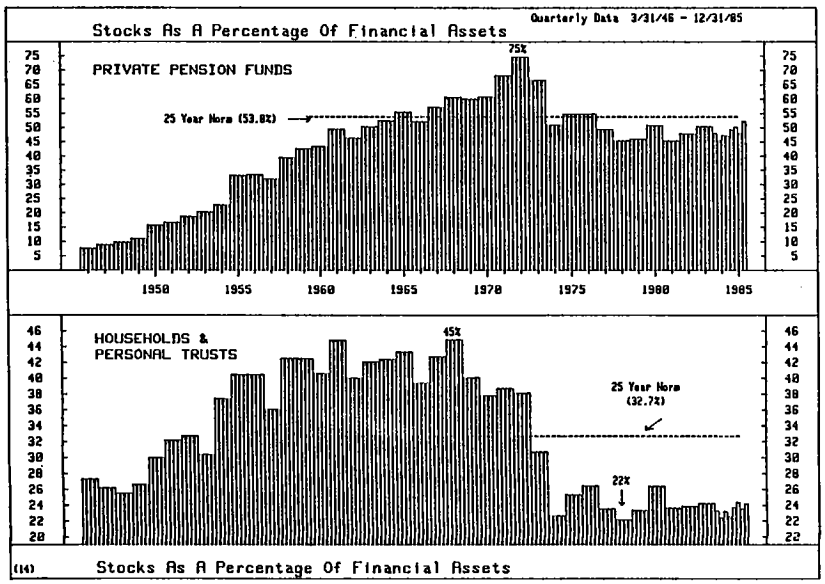
WHERE WILL IT END? Question: Russell, in Letter 949 you showed three charts, and all three implied that this bull market had farther to go. Then in Letter 950 you showed the negative volume index hitting new highs, again implying that a primary bull market is in progress. Let's face it, you obviously think this bull market has further to go. Why do you think so, and how far do you see the bull market going?

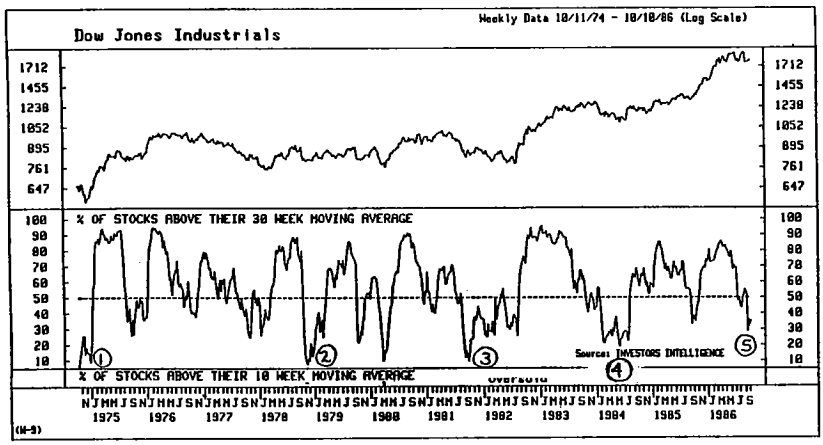
Answer: Yes, I do believe we are still in a major bull market, and no, I do not believe we have seen the bull market's end. This bull market started in 1974 following one of the greatest breadth and price collapses in stock market history. In the years since, the Dow has risen from its 1974 low of 577 to its 1986 high of 1919, an impressive rise any way you look at it. But I'm thinking that this market has further to go on the upside -- maybe a lot further.

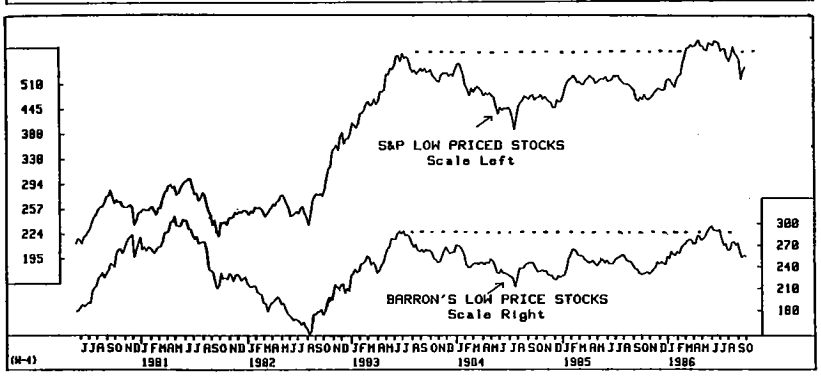
Let's concede that this is a BIG bull market. If so, then we must also consider that big bull markets don't usually end with a whimper. No, quite the opposite. Big bull markets usually end in an area of huge volume, frantic speculation, miniscule stock yields, standing-room-only in the boardrooms -- all this accompanied by a hurricane of rumors, hot tips, "insider recommendations," and frenzied odd-lot buying. What I have just described is the classic distribution phase of a big bull market; it's the phase where informed investors (i.e., investors who deal in VALUES) distribute their securities to a greedy public. In my opinion, we have not yet seen this final phase of the bull market. I believe this distributive phase lies somewhere ahead.

At this point I want to present three long-term charts (charts courtesy of Ned Davis Research). The first chart shows stocks as a percentage of holdings first in private pension plans and then as a percentage of holdings in households and personal trusts. In the first case the percentage is slightly below the 25-year norm; in the second case it is far below the 25-year norm. I would think we would see these percentages much higher before this bull market is over.

The second chart shows the Dow with the percentage of stocks holding above their 30-week moving average. The chart is useful in gauging the intensity of each of the five major reactions since the 1974 bottom. Note that at the '74 bottom only 4% of all NYSE stocks were able to hold above their 30-week moving averages. But in each reaction since the 1974 lows the percentage of stocks resistant to decline creeps higher. Thus reaction #2 (in 1978) saw 8% of all the stocks on the NYSE hold above their 30-week MA. In reaction #3 (1981) it was 10% of the stocks that held. In reaction #4 (1984) it was 20%. And during the most recent reaction here in 1986, 30% of all stocks have held above their 30-week MA. Thus, the intensity of each correction since 1974 has been LESS than the last.


Stocks As A Percentage Of Financial Assets
Quarterly Data 3/31/46 - 12/31/85
PRIVATE PENSION FUNDS
25 Year Norm (53.8%)
HOUSEHOLDS & PERSONAL TRUSTS
25 Year Norm (32.7%)
Stocks As A Percentage Of Financial Assets


Dow Jones Industrials
Weekly Data 10/11/74 - 10/10/86 (Log Scale)
% OF STOCKS ABOVE THEIR 30 WEEK MOVING AVERAGE
% OF STOCKS ABOVE THEIR 10 WEEK MOVING AVERAGE
Source: INVESTORS INTELLIGENCE



What this tells me is that the bull market is growing stronger. It is becoming more resistant to correction. Ultimately, this kind of increasing strength during corrections can lead to a major rise. The less the downside intensity, the greater the coming upside intensity.

The third chart is one I showed some time back. It traces the paths of both the S&P Low-Priced Stocks and Barron's Low-Priced Stocks. Note that since the 1983 peaks neither of these two indices has really made any upside progress. Now in all previous bull markets the final wind-up is accompanied by a major rise in the low-priced stock indices. Often, in fact, the L-P indices will spike up toward the end of a bull market. This occurs because the public comes in with both feet, buying anything and everything that has a low price tag on it. And the L-P stock indices reflect this kind of public frenzy.

But what interests me is that we have seen no real speculative activity in the L-P indices in recent years. In fact, if you look closely you will see that the Barron's L-P Index has never, over the last five years, even bettered its 1981 peak! That's hardly a sign of intense speculation.

Now here's another important point. A lot of analysts are now pointing to "technical danger signals" in their charts. Others are warning that "stocks are too high" or that "fundamentals look bearish for 1987 and beyond." I'm fully aware of the potential dangers in the US economy. In fact, I've been writing about the dangers of debt and deficit spending for years. But the end of a great bull market isn't a matter of what your favorite analyst sees in his appraisal of the business picture. The end of a great bull market is a matter of TIMING. And the timing of the end is always very difficult, very deceptive.

The hints of the 1929 bull market's end were there during 1927 and 1928 and certainly during 1929. The signs of the 1966 bull market top were there all during 1964 and '65. The hints of the 1973-'74 disaster were there in the economy during 1972 and '73. And the economic problems have never been clearer than those that present themselves here in 1986. In fact, intelligent economists have been warning us about business conditions all through the 1980s and with good reason. But those warnings have little to do with the timing of a great bull market's final phase.

As I have been saying, I see this bull market literally "blowing its top" prior to its ultimate demise. I believe that somewhere ahead we are going to see frenzied speculation, new records in exchange volume, a wholesale entrance by the public, and perhaps a final spearpoint top in many of the major stock averages. I might add (and this is very important) that this bull market will probably end amid GOOD business news and frothy optimism on the part of businessmen. It will end with a sky of bright blue, a sky with hardly a cloud in it!

And here's something else. I sincerely doubt that we are going to get all those clear-cut technical warnings prior to the final top. I don't think that the smart boys are going to be able to point to this or that "sell signal" prior to the top. No, it's not going to be that easy — the bull isn't going to give us that marvelous advantage.

Here's what I see coming. As the bull market slowly moves toward its final highs, you and I are going to have to get out; we're going to have to move to the sidelines. We may be selling a month, three months, maybe even six months too early! But once we're out we're going to have to STAY OUT. And then one day, with no warning, the bull market is going to topple over. The Dow will perhaps drop away 100 or 150 points in a single session. And the next day the market will fall some more. There won't be any warning; it will just be a sudden sickening waterfall. The bids will simply dry up, and the bear market will be on. Those who failed to sell, those who were waiting for the "next rally" -- they'll be destroyed. They'll be destroyed because the next rally will come from shockingly lower levels, amid massive liquidation by the mutual funds and by a terrified public.

Anyway that's the way I see this bull market slowly but relentlessly rising to its final exciting top, and that's the way I see this bull market ending. I don't envision this bull market ending amid rotten business news or amid a chorus of warnings from economists, newspaper writers and advisory bulletins (as has been the case throughout 1986).

A question: how far are we from this third or final speculative phase of the bull market, and how long could it last? My anwer: there's absolutely no way of telling. I am not going to try to predict the timing of the final phase of this bull market. It could be here in a few months and last a few years. Or we could be a year or so away from the final speculative phase and it could last six months.

What I want to do is IDENTIFY the third speculative phase rather than (foolishly) try to predict exactly when it is going to occur. The market will tell its story in its own good time. My job is to attempt to piece together the story and make sense out of it.

SUBSCRIPTION EXTENSIONS: A month or so ago I offered to extend subscriptions to Dow Theory Letters up to four years ahead. I did this because according to the new tax bill, you cannot (unless you are a business) write off investment advisory reports as an expense after 1986. My offer is still open: Two extra years added to your current subscription for $400, three extra years for $575, and four additional years for $740.

There is a humorous aspect to all this. Knowing that I had bypass surgery on July 15, I've received a few phone calls from subscribers that go something like this: "Hello Russell, this is Chuck Checkout. I just wanted to tell you that I really enjoy your Letters. Hey, how ya feelin' after open-heart surgery? Really, sounds good -- what, you're out there jogging every morning. Great, great! Say, I want to extend my subscription for another three years. Sure, I'll put it in the mail tonight. Good talkin' to ya."

But listen, I don't blame anyone for being careful about spending their hard-earned money. Remember the old Merrill Lynch slogan, "Investigate, then invest." Just to illustrate that I'm in good shape only four months after bypass surgery, here are two pictures of me taken by my good wife, Faye. The first shows me lifting an incredible 740 pounds, a post–bypass world record. The second shows me jogging into La Jolla while establishing a New York to California (non-stop) jogging record of five days, 21 hours. Note the hysterical crowd in the background!

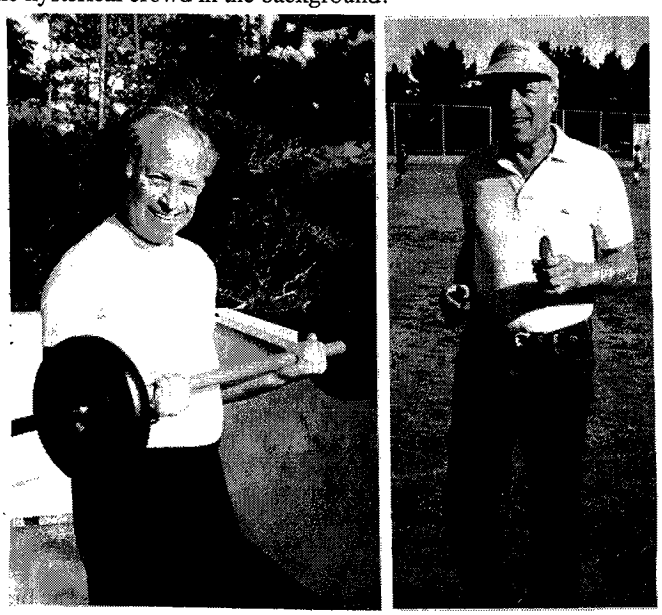


FIGURE IT OUT: According to cycle expert Peter Eliades, one of the most important cycles, the one that hit a market bottom on November 13, 1950, October 24, 1962, and October 4, 1974 also hit a low on September 25, 1986. This cycle consumes exactly 4,363 calendar days. Because that cycle struck its low on September 25, Eliades is of the opinion that Dow 1730-45 area (the September 25 Dow area) will probably represent the low for the remainder of this bull market. The next important cycle bottom, says Eliades will come on February 16, 1987. If we hold above the 1730-45 Dow level between now and February 16, 1987, the bull market should gather strength on the upside. So far, Eliades' predictions have worked out well.

Here are a few other items to consider. The S&P 500 (barring a crash, which I don't foresee) is almost sure to finish 1986 on the plus side. If this happens, the S&P 500 will have been up for FIVE YEARS RUNNING. This has never happened in the history of the 500 going back to 1926. The Dow, which has a much longer real-time history than the 500, did make it up five years running -- ONCE before. This occurred during 1924 to 1928. Of course the next year, 1929, gave the world something to think about. To bring the study up to date, the Dow was up for the years 1982, 1983, and 1985 and will almost surely be up in 1986. But the string was broken in 1984, which was a down year for the Dow.

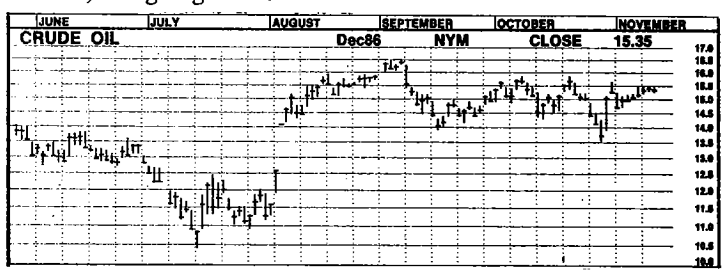
Many people talk about the accuracy of the decennial pattern. But I don't find anything sacred about this pattern. For instance in the "seven" years of each decade since the late-1800s, the decennial pattern is mixed. The year 1897 was an up year for the Dow, 1907 was a down year, 1917 was down, 1927 was up, 1937 was down, 1947 was up, 1957 was down, 1967 was up, 1977 was down. So as far as I am concerned, you can forget the decennial pattern.

Another item: next year, 1987, is a presidential pre-election year. In this century the market has NEVER been down during a presidential pre-election year.

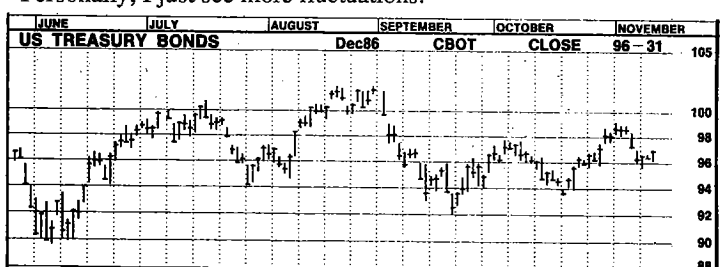
So the market has never been down during a presidential pre-election year -- which 1987 is. But the S&P 500 has never been up six years running — which will be the case if the 500 is up next year. And oh yes, leading designers are showing women's skirts up 3 to 5 inches above the knee for next year. According to ancient Wall Street lore, stock prices move up and down with skirt hems.

Had enough? Then try my technique. I let THE MARKET ACTION TELL ME THE STORY. AND I STAY WITH THE PRECEPTS OF THE DOW THEORY. And I try to stay away from preconceived notions, formulas and patterns. The trouble with all these formulas is that just about the time you need them, they misfire.

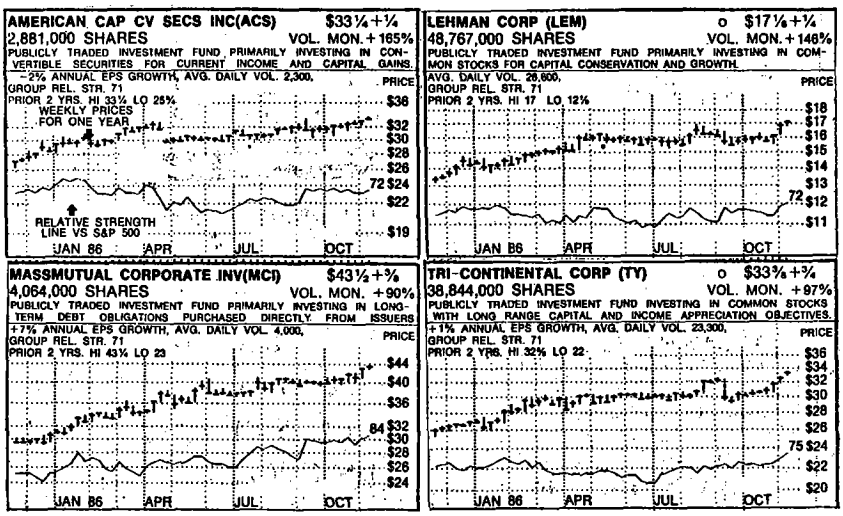
CHARTS: The price of oil is one of the "lead items" on any economist's price list. Here we see the chart of the Dec. crude contract. On an October plunge, crude held at 13.50, and since then, it's been trying the upside. The key level now is 16. If 16 is bettered, I see crude probably bettering the September high of 16.50, and going for 18.



The chart of the T-bonds (Dec. contract) shows the bonds doing just about what I have been saying they might do -- and that's fluctuating in a high-level trading range. The bonds made a successful test of the 92 level in September, and they've been floating higher since. A move to 100 would be impressive. Personally, I just see more fluctuations.



I've been recommending the closed-end funds for a long time. All four of these recommended funds hit new highs last week (see page 5 charts). ACS is interesting because it is a fund which specializes in convertible securities. MCI has been a favorite of mine. It specializes in private placements of bonds, and has a great record of increasing its dividends. Finally, TY and LEM are now selling (which seldom happens) at premiums over net assets. Both have been recommended here many times. LEM and TY will both pay (aside from regular dividends) an added capital gains distribution in Dec. '86 -- LEM just announced its distribution at $1.58 per share.


AMERICAN CAP CV SECS INC(ACS) $33¼+¼
2,881,000 SHARES VOL. MON. +165%
PUBLICLY TRADED INVESTMENT FUND PRIMARILY INVESTING IN CONVERTIBLE SECURITIES FOR CURRENT INCOME AND CAPITAL GAINS
-2% ANNUAL EPS GROWTH, AVG. DAILY VOL. 2,300,
GROUP REL. STR. 71
PRIOR 2 YRS. HI 33¼ LO 25¾
WEEKLY PRICES FOR ONE YEAR
RELATIVE STRENGTH LINE VS S&P 500
JAN 86 APR JUL OCT
LEHMAN CORP (LEM) o $17¼+¼
48,767,000 SHARES VOL. MON. +146%
PUBLICLY TRADED INVESTMENT FUND PRIMARILY INVESTING IN COMMON STOCKS FOR CAPITAL CONSERVATION AND GROWTH
AVG. DAILY VOL. 26,600,
GROUP REL. STR. 71
PRIOR 2 YRS. HI 17 LO 12¼
JAN 86 APR JUL OCT
MASSMUTUAL CORPORATE INV(MCI) $43½+¾
4,064,000 SHARES VOL. MON. +90%
PUBLICLY TRADED INVESTMENT FUND PRIMARILY INVESTING IN LONG-TERM DEBT OBLIGATIONS PURCHASED DIRECTLY FROM ISSUERS
+7% ANNUAL EPS GROWTH, AVG. DAILY VOL. 4,000,
GROUP REL. STR. 71
PRIOR 2 YRS. HI 43¼ LO 23
JAN 86 APR JUL OCT
TRI-CONTINENTAL CORP (TY) o $33¾+¾
38,844,000 SHARES VOL. MON. +97%
PUBLICLY TRADED INVESTMENT FUND INVESTING IN COMMON STOCKS WITH LONG RANGE CAPITAL AND INCOME APPRECIATION OBJECTIVES
+1% ANNUAL EPS GROWTH, AVG. DAILY VOL. 23,300,
GROUP REL. STR. 71
PRIOR 2 YRS. HI 32¾ LO 22
JAN 86 APR JUL OCT

NOTES & QUOTES: I've been predicting that this primary bull market is going to end with a global explosion in stock prices. Some hints of this can be seen in what is currently happening in Britain. Share fever is hitting England. A month ago Trustee Savings Bank put its shares up for sale and applications for the new shares hit $8.1 billion, 8 times the amount of stock for sale. The shares promptly doubled in price. Coming up next in Britain is the biggest corporate sale in world history, the sale of British Gas for roughly $8.7 billion. The British government already has 4 million inquiries on BG. Slated for early 1987 -- sale of British Airways for about $1.5 billion. All of this is part of Margaret Thatcher's policy of getting the British government out of a lot of businesses and getting those businesses into the hands of the public. By 1987 the state ownership of industry will be down 40% from the high.

* *

What's the biggest trend in American Labor? It's the "give-back." That's the term that describes what happens when management says, "We're getting clobbered, and if you guys want to keep this company solvent and keep your jobs, you've got to take a salary cut and a benefit cut. You've got to give back." The give-backs are piling up for US labor in almost every industry.

* *

Is the world insane? Probably no more so than it's ever been. And I'm talking about wars. There is no world war going on today, but I count no less than 35 smaller wars in force at this time. Just to name a very few places where there are local wars: El Salvador, Angola, Lebanon, Iran-Iraq, Cambodia, Philippines, Nicaragua, Sudan, South Africa, Uganda, Afghanistan, Burma, Chad, Morocco, Sri Lanka, Guatemala, Ethiopia, Laos. As I said, the world is pretty insane.

The annual cost of all these wars runs into the tens of billions of dollars. In human lives, the cost is beyond reckoning. In refugees alone the totals are mind-blowing: Near East and South Asia, 6.8 million refugees; Africa, 2.7 million; East Asia, 254,000, and Latin America and the Caribbean, 232,000.

* *

Gotham: Which are the most valuable properties in NYC? Here they are, according to Crain's NY Business: (1) World Financial Center valued at $3 billion; World Trade Center $3 billion; Rockefeller Center $1.5 billion; Equitable Center $850 million, and Pan Am Building $675 million.

* *

Attracted by low mortgage rates, renters are moving out and into their own homes. In the past six months over 200,000 renters have vacated. Except for hot spots such as Washington DC, NYC, SF, Chi and LA, rental vacancies are pushing into double digit figures. During the first six months of 1986 developers pushed multifamily construction to the highest level in 12 years -- in order to beat the new tax rules. Realtors say that there will be no new multifamily rental construction in the foreseeable future.

* *

Football Horror Stories: I count 286 NFL players currently on injured reserve. The culprit, says the Nov. 10 Sports Illustrated, is steroids. The NFL used to have big guys at 240 pounds or they had smaller fast guys. Now they have 280-pound big guys who are fast (with maybe 50 of those pounds due to dangerous steroids). The result: a lot of torn muscles, bruises and broken bones. ... Believe it or not, a lot of Heisman winners never got their college degrees, and these (for shame) include Tony Dorsett, Bo Jackson, Mike Rozier, Charlie White, Marcus Allen, George Rogers. Hats off to those Heismans who did graduate, including Doug Flutie, Herschel Walker, Billy Sims, Earl Campbell. ... The most precarious profession? Head coach in the NFL. Since 1982, 20 head coaches have been fired or left their jobs. There are only 28 teams in the NFL.

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China: a bunch of US big-wigs headed for China last week with the intent to survey the scene and plan for the future. After all, China has over a billion potential customers and a government that is turning increasingly "capitalist minded." Among the travelers, NYSE Chairman John Phelan, plus wheels from Merrill Lynch, Bankers Trust, Goldman Sachs, First Boston, etc.

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When I was a kid of 15 or 16, I learned (sad to say) about sex from the posters, book stores and flicks in NYC's Times Square. Old 42nd Street was the sleaze capital of the US. More recently, it's become the dope capital of the US. But after years of threats and promises, all this is going to change. Times Square is going to get a $2 billion facelift via the "largest urban redevelopment project ever undertaken by private enterprise." Going up by the early 1990s -- four new office buildings, a 550-room hotel and a massive merchandise mart. So if you want to take a last look at sleaze center of the US, you'd better do it fast.

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About six months ago I wrote a piece in which I stated that the Soviets had a major problem -- what to do about computers and the Russian government's mania for secrecy and censorship. It is obvious to Gorbachev that the wave of the future is computers, but if you give the average Russian a computer you open the door to unbridled access to information. And, of course, access to information leads to an even worse phenomenon -- freedom of information. What to do? Should the Russian leaders play it safe and keep the Russian populace in a state of ignorance, or should they let the outside world pass them by via the awesome power of the computer? This story provides the answer:

The Soviet Union wants to flood its high schools with computers, and has sent a team to the USA to find out how.

The 30-person team — 10 chaperones and 20 computer whiz kids — will spend the next two weeks at Stanford University, GTE Telenet, Microsoft Corp. and other tech centers.

Their mission: Learn how computers are used in USA schools and homes.

The students will stay with USA families — a first for USA-USSR exchange programs.

Each host family owns a personal computer. The Soviet students will keep in touch by sending electronic messages via PC Pursuit, a private network for computer owners.

It's a new concept to the Soviets. "Almost no one has a home computer" in the USSR, said Andrei Ershov, the educator overseeing computerization of 60,000 schools. "We just started selling them this year."

There are now fewer than 10,000 computers in Soviet high schools but "within the next five years, we hope to have 500,000," Ershov said.

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Question: Who's the biggest private owner of real estate in the world? Answer: McDonalds. Yeah, believe it or not, Big Mac is also Mr. Big Land. But compared to the US government, McDonalds is a piker. Look at these figures. The government owns the following percentages of land in these states: Alaska 85% government owned, Arizona 44%, California 47%, Hawaii 19%, Idaho 63%, Montana 29%, Nevada 85%, New Mexico 33%, Oregon 49%, Utah 63%, Washington 29%, Wyoming 49%.

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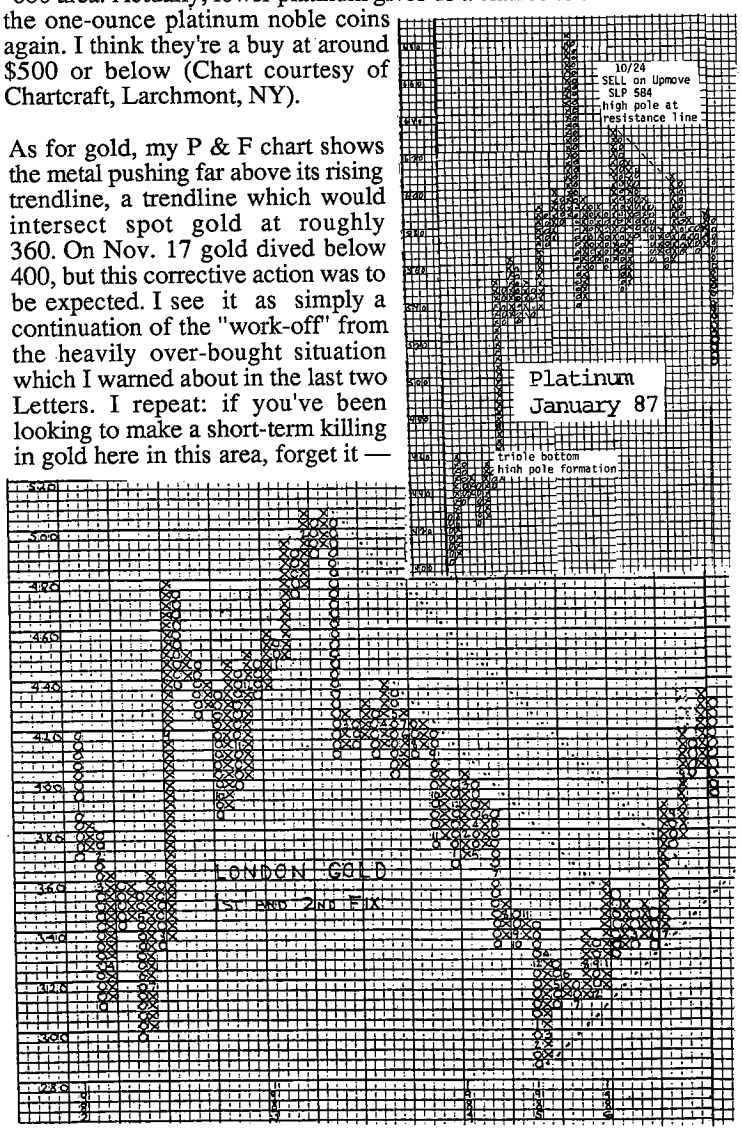
AMAZING STATISTICS DEPT: 75% of NYC's 15,000 restaurants go broke every five years. ... 30% of all the white families in the US are single parent families. An astounding 60% of

all black familes are single-parent families. ... Male alcoholics outnumber female alcoholics 7 to 1. ... A one-day national holiday in the US costs a total of $6.5 billion in lost productivity. ... The nation's biggest research and development spenders (in terms of dollars) are, in order: GM, IBM, AT & T, Ford and DuPont. But all of these firms spend less than 7% of their total dollar sales volume on research. The real R & D champions are the drug companies. For instance, Merck spends an amount equal to 12% of its annual sales for R &D. Eli Lilly spends 11.3%, and Upjohn spends a whopping14.1%. ... Rock singer Bruce Springsteen's "Born in the USA" record has (so far) sold an incredible 17 million copies. ... Last year 5-8% of all US farmers got out of the business. ... The FDIC reports that there are 1,400 banks on its "problem list," and new problem banks are being added at the rate of one (that's right, one) per day. ... Science is studying the Seventh Day Adventists. Adventists who adhere strictly to the church doctrine abstain from imbibing alcohol or caffeine drinks, do not smoke and are vegetarians (although they do eat dairy). These Adventists (amazingly) have an longevity which is 12 years more than that of the average American.

PRECIOUS METALS: News comes and news goes. One day it's Afghanistan, the next day it's Iran, then it's Nicaragua. S. Africa was hot news a few months ago and platinum rose like a rocket. Now the news people have juicier topics such as Reagan's goofs. Consequently, the S. African hysteria has cooled off. And so has the price of platinum (S. Africa produces most of the free world's platinum). This P & F chart shows the Jan. '87 platinum contract breaking down with massive support now in the 560 to 600 area. Actually, lower platinum gives us a chance to accumulate the one-ounce platinum noble coins again. I think they're a buy at around $500 or below (Chart courtesy of Chartcraft, Larchmont, NY).



As for gold, my P & F chart shows the metal pushing far above its rising trendline, a trendline which would intersect spot gold at roughly 360. On Nov. 17 gold dived below 400, but this corrective action was to be expected. I see it as simply a continuation of the "work-off" from the heavily over-bought situation which I warned about in the last two Letters. I repeat: if you've been looking to make a short-term killing in gold here in this area, forget it — it's not going to happen. As a matter of fact, we patient old-timers, we LIKE the long, plodding, early phase of a bull market. The longer the initial phase, the more TIME we have to accumulate. I continue to buy coins on a monthly basis. Best buys: Krugerrands and Coronas, both of which can be purchased at a cost very close to actual gold content.

Comment: Hardly a day goes by when I don't receive a pile of mail about "fabulous, guaranteed profits in the precious metals." The profits are more apt to appear when the super-salesmen and touts finally leave town. It may take some tedious and discouraging action before the metals are ready to move up again. And it's just that kind of action that we could now be seeing in gold and platinum.

LATE NOTES: On the broad overall view, I take the position that the primary trend of the market remains bullish. Nevertheless, I am always checking and searching for evidence to back up or reinforce that view. Here is one area that I watch: each time the bull market mounts an extended rally, it tends to push into what we term "over-bought" territory. This is an area where either the bull market has gathered too much enthusiastic company -- or the bull market has simply climbed TOO FAR or climbed for TOO LONG (or both).

In the last Letter I noted that as of the week ending November 7, the weekly A-D ratio closed HIGHER for EIGHT WEEKS RUNNING. This action comes under the heading of "too long on the upside." Now obviously there is no absolute formula to measure how long is too long, but I know from experience that when the weekly A-D ratio has closed higher for eight consecutive weeks, the market is usually ready to either consolidate or correct.

I use a number of other indicators to gauge when the market is over-bought or over-sold. For instance, I use a 10-day average of daily advances and a 10-day average of daily declines. I use a 21-day moving average of the TRIN indicator, which provides good signals. I watch the number of days in a two-week period that the market rallies. But perhaps the best over-bought/over-sold indicator is the McClellan Oscillator. This is the differential between two exponential moving averages of the daily advances and declines. The McClellan is difficult to compute, and I therefore use a specially programmed computer to compute the McClellan Oscillator figures.

Suffice it to say that on November 13 the McClellan Oscillator turned negative. This tells me that as far as breadth is concerned, the market is now in a CORRECTIVE phase. In other words, the broad market, as measured by the advances and declines, has now moved into a corrective mode. What interests me now is how the Dow Averages act while the breadth is correcting. If the Dow Averages tend to hold up while the broad market goes through its corrective phase, then I call this excellent action. Conversely, if the Dow Averages fall apart while the breadth is correcting, the situation will look much less appetizing, and we can expect a much longer wait before the bull market mounts an attack on the highs again. So far, I might add, the market looks pretty good — particularly the Transports.

Since the correction phase has just begun, I can't tell too much at this point, but by the next Letter the picture should be much clearer. Remember, it is the BREADTH of the market that is correcting here, so the area to watch is how well the Dow Averages hold while the breadth (i.e., the A-D) is correcting. Strength (or downside resistance) in either the D-J Industrial Average or the D-J Transportation Average (or both) would be a very positive sign, regardless of downside action in the A-D ratio over the coming weeks.

NEXT MAILING: Dec. 3